

**CENTERVILLE SCHOOL DISTRICT No. 215**  
**Klickitat County, Washington**  
**September 1, 1992 Through August 31, 1994**

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**Schedule Of Findings**

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1. Accounting Controls Should Be Improved

As a result of our audit of the district's accounting systems we noted the following conditions which result in weaknesses in the district's accounting controls.

a. Cash Receipts:

(1) District personnel do not always prepare receipt forms or indicate the mode of payment (check/cash) on receipt forms to support payments received and deposited.

(2) Deposit slips do not always indicate the applicable receipt numbers to enable tracking of receipts to deposits.

(3) Moneys collected for lunch sales are not reconciled to supporting documentation to ensure all moneys are accounted for.

In our 1991-92 audit of the district we noted similar conditions and, in March 1993, we recommended their correction.

b. Purchasing And Cash Disbursements:

(1) Several voucher purchases and revolving account disbursements were processed without documentation to support the propriety of these expenditures.

(2) Also, many voucher purchases were processed without the superintendent's review and approval to ensure only legal district expenditures were paid.

c. Payroll:

(1) Contracts )

(a) Several employees who were compensated for performing duties beyond their basic contracts did not have supplemental contracts to support the boards authorization of this compensation.

(b) Supplemental payments were incorrectly made through the voucher system and payroll taxes were not withheld and properly paid. Further, this compensation was not reported to the Internal Revenue Service.

(c) Several employee contracts contained the incorrect pay rates per union negotiations, although these employees were paid the correct

amounts per the union agreement.

(2) Time Sheets )

Many employee time sheets did not adequately identify the programs or activities for those individuals who charged time to various district activities and programs. Many other employees' time sheets did not identify payroll periods being reported upon and/or indicate evidence of supervisory review for accuracy. (See Federal Finding 1.)

(3) Leave Slips )

Employee leave and substitute hire slips were not always signed by the superintendent to indicate his review and approval.

d. Fixed Assets:

The district does not maintain an inventory listing of fixed assets to control the use and disposition of these assets. Further, surplus items are typically given away to any taker without consideration to value.

District employees were not aware of the potential problems caused by the above practices.

*OSPI Accounting Manual For School Districts in the State of Washington*, Chapter 3, Section G-6, page 1 states that:

An adequate fixed asset accounting system ensures the school district will meet statutory requirements, produce records and reports, and properly guard assets. (Also see Federal Finding 3.)

*The Revised Code of Washington (RCW) 43.09.200* states in part:

The accounts shall show receipt, use and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers and other documents kept, or required to be kept, necessary to isolate and prove the validity of each transaction . . . .

To satisfy the requirements of RCW 43.09.200, the district's accounting system must include adequate internal controls. The American Institute of Certified Public Accountants (AICPA) *Statement of Auditing Standards*, Section 319.69(2) states:

Establishing and maintaining an internal control structure is an important management responsibility. In establishing specific internal control structure policies and procedures concerning the entity's ability to record, process, summarize and report financial data that is consistent with management's assertions embodied in the financial statements, some of the specific objectives management may wish to consider include the following:

- a. Transactions are executed in accordance with management's general and specific authorization.
- b. Transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and (2) to maintain accountability for assets.
- c. Access to assets is permitted only in accordance with managements authorizations.
- d. The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

The above weaknesses significantly increase the risk that errors or irregularities in the district's accounting systems could occur and not be detected within a timely period by its personnel in the normal course of performing their assigned functions.

We recommend that district officials correct the above noted weaknesses in cash receipts, purchasing and cash disbursements, payroll and fixed assets. We further recommend the district amend and refile all state and federal payroll reports and tax reports to properly reflect supplemental payments to district employees made through the vouchers system as payroll for the audit period. We also recommend the district recover all underwithheld payroll taxes from the employee affected.

2. Associated Student Body (ASB) Fund Internal Controls Should Be Improved

Our audit of the ASB Fund procedures disclosed several internal control weaknesses. Some of these concerns were identified in our 1991-92 audit and shared with district personnel at an audit exit conference in March 1993. We noted the following weaknesses:

a. Receipts

(1) Receipts from the sale of inventory items are not reconciled to the amount of projected sales resulting from changes in inventory quantity. For example, we estimated the amount of juice sale receipts for the fiscal year ended August 31, 1994, and determined that a loss in receipts and/or inventory of approximately \$218 had occurred.

(2) Also, prenumbered tickets are not used to control admission fees paid for attending ASB events and ASB receipts are not deposited at least weekly.

b. Imprest Account Disbursements

Vouchers for the replenishment of ASB imprest account disbursements did not always have documentation attached supporting the propriety of the disbursements.

Although district management has concurred with our prior recommendations on improving controls over ASB, the district has not taken adequate corrective action to improve ASB internal controls.

Establishing and maintaining a strong internal control structure is an important part of management responsibility.

The above weaknesses significantly increase the risk that errors or irregularities in the district's ASB accounting systems could occur and not be detected within a timely period by its personnel in the normal course of performing their assigned functions.

We recommend that district officials improve the ASB fund's internal control structure by establishing procedures as outlined in the school accounting manual for ASB activities.

Auditor's Concluding Remarks

*The ASB presents an interesting dilemma for a small school district. The ASB advisor has been directed, and so far is complying with the request, to deposit all ASB revenues with the Executive Office immediately upon receipt. All revenues are receipted in immediately and stored in the vault. Deposits are made regularly, as revenues are received by the district. Our ASB can go several weeks, if not months without any revenue being generated. Making monthly deposits would not be called for in this situation. We feel comfortable with the new procedures implemented this Fall.*

*Our school hosts 5 or 6 games per year where admission is charged. It is not worth the cost to invest in a ticket system for this limited number of games with an average attendance of 20 to 30 people. We will switch to a donation type of revenue collection.*

*Documentation for ASB accounts go through the same process, now, as do all vouchers for the other district accounts. We feel this issue has been resolved.*

3. Staff Mix Factors Should Be Accurately Reported

Our review of staff mix reporting noted that all certificated personnel files selected for review did not have adequate supporting documentation for the levels of education or years of experience reported to the Superintendent of Public Instruction (SPI).

Our sample for testing of Legislative Evaluation and Accountability Program (LEAP) placement was composed of four certificated personnel. Our test indicated all of these individuals had errors affecting their placement on the LEAP schedule. Two of these individuals were placed at levels below what the documentation in their files supported, and the other two were placed at higher levels.

WAC 392-121-280 states in part:

School districts shall have documentation on file and available for review which substantiates each certificated employee's placement on the state-wide salary allocation schedule . . . .

Staff mix factors are an integral part of the state funding formula for school districts. The factors are determined by each individual's educational training and professional experience as of October 1 of each year and assigning to them, on this basis, the appropriate staff mix factor from the LEAP table. Both the table and guidelines for placement upon the table are set forth in Chapter 392-121 WAC.

WAC 392-121-270 states in part:

Each certificated instructional employee with a degree shall be placed on the state-wide salary allocation schedule and on LEAP Document 1 based on the employee's years of experience, highest degree level, and total eligible credits as defined in this chapter.

District management does not appear to be adequately familiar with the requirements in reporting staff mix factors to SPI. As a result, the district is not accurately reporting staff mix factors to SPI, which could impact the appropriateness of the amount of funds provided by SPI to the district.

We recommend district officials:

- a. Review employee files to ensure that college credits and years of experience are properly reported to SPI and supported within by the employee's personnel file.
- b. Contact SPI and make inquiry as to what corrective action, if any, should be taken for the 1993-94 school year.

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**Schedule Of Federal Findings**

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1. Charges To Grant Programs Should Be In Accordance With Federal Requirements

We noted that during the audit period, at least \$7,317 in questioned costs were charged to the district's Chapter 1 program, as follows:

- a. Time distribution records were not available to support payroll charges made to the program for the district superintendent and several other employees who were also chargeable to other district activities.
- b. Conference fees for participants in a workshop to discuss methods to improve the overall quality of education were charged entirely to the program, although some of these individuals were also chargeable to nonprogram activities, and one had no involvement in the Chapter 1 program.
- c. Payroll costs for student tutorial sessions were charged entirely to the program, although these sessions also served nonprogram students.

OMB Circular A-87, Attachment B, Paragraph B(10). states in part:

. . . Payroll must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort . . .

In addition, the "Common Rule" for *Uniform Administration Requirements for Grants and Cooperative Agreement with State and Local Governments* and OMB Circular A-87, "Cost Principles," establish federal requirements for documentation and allowability of costs chargeable to federal grant programs. Among those requirements are:

- a. Meetings and conferences. Costs are allowable when the primary purpose of the meeting is the dissemination of technical information relating to the grant program and they are consistent with regular practices followed for other activities of the grantee (OMB Circular A-87).

These questioned costs result from material weaknesses in the district's administrative controls over its federal grant programs. District personnel are not adequately familiar with the federal requirements for charging of expenditures to grant programs.

We recommend the district ensure that charges made to federal programs are in accordance

with federal requirements.

We also recommend that the district resolve these questioned costs with the Superintendent of Public Instruction.

2. The District Should Improve Controls Over Fixed Assets Purchased With Federal Funds

Our review of the district's accountability for fixed assets acquired with federal funds disclosed that the district does not maintain a fixed asset inventory listing or periodically verify the existence of those assets.

The federal Department of Education, "Common Rule" for *Uniform Administration Requirements for Grants and Cooperative Agreements*, 34 CFR, Parts 74 and 80, Section 32 (d), states in part:

- (1) Property records must be maintained that include a description of the property . . . identification number . . . the source of the property, who holds the title . . . acquisition date . . . cost . . . location, use and condition of the property . . .
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft should be investigated.

District management was unaware of the requirements for the accountability of fixed assets acquired with federal funds.

Because the district has no fixed asset accounting system, there is an increased risk that errors and irregularities may occur and not be detected in a timely manner. Consequently, we consider this condition to be a material weakness in internal controls.

We recommend the district improve controls over fixed assets by complying with the property management requirements referred to above.